

Message Text

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SUBJECT: STATUS REPORT ON SERVICE FEDERATION FOR AGRICULTURAL
COOPERATIVES PROJECT

REFERENCE: STATE 233400

AID/W REQUESTED A STATUS REPORT ON REFTEL PARAGRAPH 2, SECTIONS B., C., D., AND G. USAID'S REPORT ON THE STATUS OF THE REQUESTED POINTS APPEARS BELOW. ALTHOUGH COMPLETION OF PP WILL DEPEND IN PART ON DISCUSSIONS WITH MINISTRIES OF FOOD AND/OR AGRARIAN REFORM WHICH WILL REPLACE MINISTRY OF AGRICULTURE (MOA) USAID STILL PLANS SUBMISSION OF THE PP TO AID/W BY MID-DECEMBER, AND REQUESTS THAT AID/W INFORM US OF LIKELY DAEC REVIEW DATE.

1. TARGET MAN ANALYSIS. THE ULTIMATE BENEFICIARIES OF THE PROPOSED LOAN ARE FARMERS WHO ARE MEMBERS OF ASSOCIATIVE ENTERPRISES. FOR THE MOST PART THIS GROUP, PRIOR TO THE AGRARIAN REFORM PROGRAM, WAS ALMOST TOTALLY DISENFRANCHISED IN PERU, BOTH ECONOMICALLY AND POLITICALLY. THE NUMBER OF INDIVIDUALS WHO DIRECTLY BENEFIT FROM A CENTRAL VARIES FROM AREA TO AREA. TO ILLUSTRATE: THE CENTRAL OF COOPERATIVES IN CHIRA HAS 4283 MEMBERS LOCATED ON 18 DIFFERENT CAPS; THE SANTA CENTRAL HAS 1599 MEMBERS ON 8 CAPS; AN ESTIMATED 10,000 FARMERS ARE MEMBERS OF ASSOCIATIVE ENTERPRISES BELONGING TO THE PUNO CENTRAL.

THERE ARE BASICALLY TWO TYPES OF TARGET MAN: (A) THOSE WHO RETAIN TITLE TO A SMALL PARCEL OF LAND WHICH IS WORKED INDIVIDUALLY AND WHO HAVE JOINED WITH OTHER SMALL LANDOWNERS INTO SERVICE COOPERATIVES; AND (B) WORKERS IN PRODUCTION COOPERATIVES, CAMPESINO COMMU-
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NITIES OR AGRARIAN SOCIETIES OF SOCIAL INTEREST (SAIS) WHO DO NOT

POSSESS INDIVIDUAL LAND PARCELS, BUT RATHER WORK LAND COMMUNALLY. THE PROPOSED LOAN WILL BENEFIT THESE GROUPS, BOTH OF WHICH MAY BE MEMBERS OF A GIVEN CENTRAL.

LAND HOLDINGS, INCOME LEVEL AND EMPLOYMENT VARY GREATLY FROM AREA TO AREA IN RURAL PERU. THE MAXIMUM AREA PERMITTED INDIVIDUAL FARMERS RANGES FROM 15 HECTARES ON THE COAST TO 150 HECTARES IN CERTAIN PARTS OF THE SIERRA. IN PRACTICE IT IS GENERALLY MUCH SMALLER. IN THE AREA SERVED BY THE CENTRAL DE COOPERATIVVAS "TE HUYRO" IN THE DEPARTMENT OF CUZCO, THE AVERAGE INDIVIDUAL HOLDING IS 6 HECTARES; IN THE AREA SERVED BY THE CENTRAL DE COOPERATIVAS IN THE SANTA-LACRAMARCA VALLEYS IN THE DEPARTMENT OF ANCASH, THE AVERAGE PARCEL IS LESS THAN 2 HECTARES; IN THE DEPARTMENT OF PUNO THE AVERAGE MEMBER OF RURAL SERVICE COOPERATIVES OWNS LESS THAN ONE HECTARE OF LAND.

INCOME LEVELS ALSO VARY WIDELY, DEPENDING UPON MINIMUM WAGES IN DIFFERENT REGIONS, THE OVERALL AGRICULTURAL PRODUCTIVITY, AND WHETHER OR NOT COOPERATIVE MEMBERS ELECT TO INVEST PROFITS FOR FUTURE RETURNS OR DECIDE TO IMMEDIATELY CAPITALIZE THEIR GAINS THROUGH CASH DISTRIBUTION TO MEMBERS. THE OVERALL DAILY WAGE RANGE FOR COOPERATIVE MEMBERS IS FROM A LOW OF SLIGHTLY OVER ONE DOLLAR A DAY (S/.50.00) TO APPROXIMATELY FIVE DOLLARS (S/.200.00) ON SOME OF THE MORE PROFITABLE SAIS. YEAR-END CASH DISTRIBUTIONS ARE ALSO MADE ON THE BASIS OF ACTUAL DAYS WORKED BY THE MEMBERS, AND THIS RANGES FROM ZERO TO A REPORTED HIGH OF ABOUT \$800 IN ONE COOPERATIVE IN THE DEPARTMENT OF ICA. ON AN AVERAGE, HOWEVER, WE ESTIMATE YEARLY CASH DISTRIBUTION OF AROUND \$100. GIVEN THE DIVERSITY OF POLICY AND GEOGRAPHY OF CENTRALS, THEREFORE, IT IS NOT POSSIBLE TO QUANTIFY ON A GENERAL BASIS CHANGES IN INCOME OR OTHER INDICATORS THAT MIGHT RESULT FROM THE ACTIVITY. HOWEVER, IT MAY BE POSSIBLE TO INTEREST THE MOA IN SELECTING ONE OR MORE CENTRALS FOR SPECIAL STUDIES TO ATTEMPT TO OBTAIN SUCH INFORMATION FOR PROJECT EVALUATION.

IN VIRTUALLY ALL ASSOCIATIVE ENTERPRISES, MAXIMUM EFFICIENCY WOULD DICTATE A SIGNIFICANT REDUCTION IN THE LABOR FORCE. SINCE THIS WOULD CREATE ENORMOUS SOCIAL PROBLEMS, GIVEN THE LACK OF EMPLOYMENT ALTERNATIVE FOR THE RELATIVELY UNSKILLED FARM LABORERS WHICH IT WOULD AFFECT, THE COOPERATIVES HAVE ELECTED TO TRY TO ACCOMMODATE ALL MEMBERS INTO THE ECONOMIC LIFE, INCREASING EMPLOYMENT AT SOME UNCLASSIFIED

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COST IN EFFICIENCY. THE BULK OF FARMERS ARE UNDEREMPLOYED DURING MUCH OF THE YEAR, ALTHOUGH DURING PEAK PLANTING AND HARVESTING SEASONS, ALL MEMBERS ARE FULLY EMPLOYED AND SOME COOPERATIVES HIRE OUTSIDE DAY LABORERS. INDIVIDUAL MEMBERS OF ASSOCIATIVE ENTERPRISES HAVE LIMITED ACCESS TO RESOURCES OTHER THAN THOSE PROVIDED BY THE ENTERPRISE ITSELF OR THE CENTRAL, EXCEPT FOR PRODUCTION CREDITS ADVANCED BY THE BFA. TECHNICAL ASSISTANCE FROM MOA AND OTHER GOP ENTITIES IS CHANNLED THROUGH THE ASSOCIATIVE ENTERPRISE.

THERE ARE A NUMBER OF SUBSTANTIAL BENEFITS WHICH WILL ACCRUE TO THE SMALL MEMBER FARMERS AS A RESULT OF THE PROPOSED LOAN. IT IS EXPECTED THAT BOTH INCOME AND EMPLOYMENT WILL RISE, AS A RESULT OF INCREASED TECHNICAL ASSISTANCE AND INCOME-GENERATING INVESTMENTS (PROCESSING PLANTS, ETC.). IMPROVED MARKETING PROCEDURES, STORAGE FACILITIES, AND WORKING CAPITAL TO FINANCE MARKETING PIPELINE OPERATIONS WILL INCREASE PROFIT MARGINS, WHICH WILL BE PASSED ON TO MEMBERS IN TWO MAJOR FORMS: (1) IN CASH PARTICIPATION, AND (2) IMPROVED COMMUNITY INFRASTRUCTURE PROVIDED BY THE CENTRAL, SUCH AS SCHOOLS, HOUSING, AND OTHER "IN KIND" FACILITIES. WHILE IT IS EXPECTED THAT REAL INCOME LEVELS WILL RISE, IT IS ALSO ANTICIPATED THAT MANY OF THE BENEFITS WILL BE OF THE LATTER TYPE - I.E. COMMUNITY INFRASTRUCTURE WHICH WILL BENEFIT ALL MEMBERS.

2. ANALYSIS OF THE CENTRALS. USAID AND THE MOA JOINTLY DEVELOPED A QUESTIONNAIRE TO OBTAIN INFORMATION RELATIVE TO THE ESTABLISHMENT AND MEMBERSHIP OF EVERY CENTRAL, THEIR ADMINISTRATION, ORGANIZATION, SOURCES

AND USE OF CREDIT, SERVICES OFFERED AND EXPECTED TO BE OFFERED, ACTUAL

AND PLANNED ECONOMIC ACTIVITIES AND FINANCIAL STATUS (BALANCE SHEET, PROFIT AND LOSS STATEMENT, AND ANTICIPATED INVESTMENTS).

THIS QUESTIONNAIRE WAS TAKEN TO THE NINETEEN EXISTING CENTRALS BY MOA PERSONNEL, AND VARYING AMOUNTS OF THE ABOVE DATA WERE OBTAINED FOR

ALL NINETEEN. FOLLOWING USAID/MOA REVIEW OF THE QUESTIONNAIRES USAID/MOA PERSONNEL VISITED SELECTED CENTRALS THAT HAS NOT BEEN VISITED BY USAID PERSONNEL BEFORE. A SUBSEQUENT MEETING RESULTED IN A) A DECISION TO SELECT FOUR CENTRALS FOR INTENSIVE ANALYSIS AND B) AN AGREEMENT AS TO PROJECT DEVELOPMENT METHODOLOGY.

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RELATIVE TO A), CENTRALS FROM DIFFERENT GEOGRAPHICAL REGIONS AND IN VARIOUS STAGES OF DEVELOPMENT WERE SELECTED. ALL HAVE A DATA BASE SUFFICIENT TO DEVELOP AN IN-DEPTH PROFILE OF THE CENTRAL. THERE IS A LIKELIHOOD THAT ALL WILL BE SELECTED TO BE IN THE FIRST GROUP OF CENTRALS AIDED UNDER THE PROJECT. RELATIVE TO POINT B), IT WAS DECIDED TO DEVELOP A SKETCH OF THE REMAINING FIFTEEN CENTRALS, AND TO USE THE DATA FROM THE QUESTIONNAIRES, FROM SITE VISITS, AND FROM OTHER MOA RECORDS TO PERFORM A DEMAND ANALYSIS. THE MOA HAS ASSIGNED SEVERAL PROFESSIONALS TO WORK WITH USAID FULL-TIME, AS WELL AS OTHERS PART-TIME.

USAID FEELS THAT THERE IS SUFFICIENT DATA AT HAND OR READILY AVAILABLE TO ANSWER QUESTIONS POSED IN REFTEL PARA 2.C. WITH FOLLOWING CAVEATS: A) WE ANTICIPATE THAT THE EXPANSION OF THE ROLE OF CENTRALS WILL BE AN EVOLUTIONARY PHENOMENON, AND ANTICIPATE THAT

ABILITY TO FULFILL NEW ROLES WILL BE FUNCTION OF ADEQUATE PROJECT INPUTS AND WILL NOT REQUIRE LEGISLATIVE OR OTHER MAJOR STRUCTURAL CHANGES; B) TUPER GAVE USAID EXCELLENT ASSISTANCE IN DEVELOPING FINANCIAL PROJECTION MODEL AND "VIABILITY" INDICATORS AND USAID IS CONSIDERING HOW TO BEST INCORPORATE HIS INPUT INTO THE ANALYSIS; C) USAID DOESN'T FEEL THAT A VALID PARTICIPATING FARMER INCOME MEASURING INDICATOR CAN BE DEVELOPED AT THE OUTSET, HOWEVER, EARLY MEASUREMENT OF BENEFITS WILL BE MADE IN OTHER WAYS (SEE 1. ABOVE); TD) AN INTEGRAL PART OF THE PROJECT WILL BE THE PROVISION OF T.A. TO STUDY CENTRALS AND DEVELOP TECHNICALLY AND ECONOMICALLY FEASIBLE SUB-PROJECTS. SUB -PROJECT FINANCING CRITERIA WILL BE DISCUSSED IN THE PP AND SET FORTH IN AN APPROVED PROJECT OPERATIONS PLAN TO BE REQUIRED AS A CONDITION PRECEDENT.

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3. INTERRELATIONSHIPS OF ORGANIZATIONS. THE PLANNED MINISTRY OF FOOD (MOF) WILL PROBABLY BE THE EXECUTING AGENCY FOR THE PROJECT, AND THE AGRICULTURE DEVELOPMENT BANK WILL ACT AS THE FINANCING AGENT, THE MAIN PURPOSE OF THIS ACTIVITY, HOWEVER, IS NOT MOF AND BFA STRENGTHENING BUT RATHER MAKING CERTAIN THAT THEY MAKE AVAILABLE THAT WHICH IS NECESSARY TO STRENGTHEN CENTRALS. POTENTIAL BOTTLE-NECKS IN BOTH THE MOF AND BFA ARE BEING CONSIDERED IN PROJECT DESIGN, HOWEVER, AND THESE ENTITIES COULD BE ELIGIBLE FOR PROJECT ASSISTANCE IF FOUND APPROPRIATE.

THE MOF WILL DEVELOP AN ANALYSIS AND 3-YEAR DEVELOPMENT PALN FRAMEWORK WHICH WILL BE USED TO ANALYZE EACH CENTRAL AND TO RECOMMEND THE INPUTS NECESSARY TO ASSURE VIABILITY OVER THE 3-YEAR PERIOD FOR EACH CENTRAL. USAID WILL APPROVE THE ANALYSIS-DEVELOPMENT FRAMEWORK. THE MECHANICS ARE NOT YET COMPLETE AS TO WHETHER LOAN T.A. FUNDS WILL BE USED TO SUPPORT PART OR ALL OF THE CENTRAL ANALYSIS COST. THE MOF HAS STATED A DEFINITE PREFERENCE FOR

USING PRIVATE FIRM(S) WITH COSTS PAID BY CENTRALS FOR WORK. USAID WISHES TO LEAVE DOOR OPEN TO POSSIBILITY OF USING LOAN FUNDS AS PARTIAL SUBSIDY OF ANALYSIS AND PLAN.

BASED ON THE CENTRAL ANALYSIS/DEVELOPMENT PLAN, THE BFA WILL REVIEW AND SELECT APPROPRIATE FEASIBLE ACTIVITIES FOR FINANCING. THE ONLY EXCEPTION TO NORMAL CRITERIA WILL BE COLLATERAL REQUIREMENTS. THE CENTRALS AS SERVICE ORGANIZATIONS DO NOT POSSESS LAND, AND SELDOM HAVE ADEQUATE CAPITAL ASSETS TO PLEDGE AS COLLATERAL.

A FUND IS EXPECTED TO BE ESTABLISHED IN THE BANK TO FINANCE LOANS FOR WORKING CAPITAL, FIXED ASSETS, AND AGRO-INDUSTRIAL PROJECTS. IN ADDITION THE BANK WOULD SERVE AS FIDUCIARY FOR FUNDS
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THAT WILL BE USED FOR TECHNICAL ASSISTANCE AND TRAINING. USAID WOULD MAKE DISBURSEMENTS TO THIS FUND ON THE BASIS OF REQUESTS BY THE MOF APPROVED BY USAID.

MEMBERS OF THE PRESENT MINISTRY OF AGRICULTURE FEEL THAT A BASIC REASON THAT CENTRALS SHOULD BE PROMOTED IS THAT THEY WILL BE ABLE TO PROVIDE FARM-LEVEL ADVISORY SERVICES IN THE FUTURE. USAID IS NOT SATISFIED THAT THESE SERVICES CAN REASONABLY BE PROVIDED BY CENTRALS OVER THE SHORT-RUN, HOWEVER, AND IS ACCORDINGLY DISCUSSING WITH THE MINISTRY WAYS THAT THESE SERVICES CAN BE MADE AVAILABLE.

4. OTHER DONORS

A. BID LOAN 322, ADMINISTERED BY THE BFA, IS AVAILABLE TO ASSOCIATIVE ENTERPRISES IN HIGH PRIORITY AGRARIAN REFORM AREAS, THE BID LOAN IS FOR \$12 MILLION WITH A \$14.5 MILLION BFA COUNTERPART. ITS BASIC PURPOSE IS TO STRENGTHEN THESE FIRST LEVEL ENTERPRISES IN ACTUAL AGRICULTURAL PRODUCTION, ALTHOUGH CREDITS ARE ALSO AVAILABLE FOR RELATED ACTIVITIES SUCH AS PROCESSING FACILITIES, ROAD CONSTRUCTION, ETC. SUB-LOANS ARE GENERALLY OF MUCH GREATER MAGNITUDE THAN THOSE BEING CONSIDERED UNDER THE PROPOSED A.I.D. LOAN, AND HAVE AVERAGED APPROXIMATELY \$800,000. AS OF DECEMBER 31, 1974, THE ENTIRE \$26.5 MILLION WILL BE COMMITTED. AND APPROXIMATELY \$1.5 MILLION DISBURSED. THE BFA ESTIMATES THAT DISBURSEMENT WILL BE COMPLETE BY 27 JUNE 1976. A MAJOR PROBLEM HAS BEEN THAT ASSOCIATIVE ENTERPRISES LACKED TECHNICAL EXPERTISE AND FINANCIAL RESOURCES TO CARRY OUT NEEDED FEASIBILITY STUDIES PRIOR TO PROJECT FINANCING.

B. IBRD LOAN 933 IS ALSO ADMINISTERED BY THE BFA. TO DATE \$1.5 MILLION OF THE ORIGINAL FUND (\$25 MILLION IBRD, \$8.34 BFA COUNTERPART) HAS BEEN COMMITTED AND \$500,000 HAS BEEN DISBURSED IN LOANS TO ASSOCIATIVE ENTERPRISES. THE BFA ESTIMATES THAT DISBURSEMENT WILL BE COMPLETE BY JUNE, 1976. UNDER THE LOAN CENTRALS

ARE TECHNICALLY ELIGIBLE FOR CREDITS FOR EITHER AGRO-INDUSTRY OR STORAGE FACILITIES. THUS FAR, HOWEVER, CENTRALS HAVE NOT BEEN SUB-BORROWERS UNDER THIS LOAN. THE MAJOR REASONS ARE THAT THE FINANCIAL POSITION OF CENTRALS DOES NOT PERMIT THEIR CONTRIBUTING THE REQUIRED 20 PERCENT OF PROJECT COSTS, AND THAT TECHNICAL EXPERTISE TO DEVELOP AND ORGANIZE VIABLE ACTIVITIES HAS BEEN LACKING.
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C. BOTH THE BID AND IBRD LOANS ARE COMPLEMENTARY TO THE PROPOSED LOAN, IN THAT BOTH WILL STRENGTHEN THE ASSOCIATIVE ENTERPRISES WHILE THE PROPOSED LOAN WILL SUPPORT CENTRALS COMPOSED OF SUCH ENTERPRISES.

D. OTHER DONORS. IN SPECIFIC CENTRALS, OTHER DONORS HAVE MADE LIMITED RESOURCES AND FINANCING AVAILABLE. IN HUALLAGA, THE WEST GERMAN GOVERNMENT HAS PROVIDED TECHNICAL ASSISTANCE AND INFRASTRUCTURE FINANCING FOR BASIC FACILITIES; IN THE CASE OF THE "TE HUYRO" CENTRAL IN THE DEPARTMENT OF CUZCO, THE DUTCH GOVERNMENT IS CURRENTLY CARRYING OUT FEASIBILITY STUDIES FOR THE EXPANSION OF TEA PROCESSING FACILITIES; CATHOLIC RELIEF SERVICE HAS MADE ABOUT \$250,000 AVAILABLE TO CENTRALS IN THE EARTHQUAKE AREA FOR CONSTRUCTION, HAS CARRIED OUT STUDIES IN A NUMBER OF CENTRALS. ALL OF THESE ORGANIZATIONS HAVE RECOGNIZED THE PROBLEMS BEING FACED BY CENTRALS; AND HAVE ATTEMPTED TO FILL SOME OF THESE NEEDS. AS ASSISTANCE HAS BEEN ON RELATIVELY SMALL SCALE, HOWEVER, AND NEVER UNDER A COORDINATED NATION-WIDE PROGRAM, USAID FEELS THAT THE PROPOSED PROJECT WILL BE A LOGICAL SUPPLEMENT TO THE SMALLER, MORE DIVERSE ACTIVITIES RECORDED TO DATE.
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